

## **Health Tax Policy and Other Health Coverage Proposals**

Under President Bush's tenure, the number of individuals without health insurance increased by six million, with nearly 46 million individuals lacking health insurance in 2004. During this same period, health care premiums increased by over 71 percent, rising from an average of \$6,348 in 2000 to \$10,880 in 2005.

In the State of the Union address, the President touted the government's responsibility to provide health care for the poor and elderly, and set forth a goal of confronting rising health costs for all Americans. Despite these claims, the budget cuts Medicare by \$35.9 billion over five years, and cuts health care for low-income children, families, disabled, and elderly by making gross cuts to Medicaid of \$17.2 billion over five years through a package of legislative and regulatory changes. As for affordability, the Administration focuses almost exclusively on health savings accounts and high-deductible health plans – forms of health insurance that serve to shift more health care costs onto consumers.

Specifically, the Administration's response to the problems of the uninsured and rising health care costs is to spend \$156.3 billion over ten years on a package of mostly recycled policies that promote health savings accounts and high-deductible health plans. Unfortunately, this agenda will undermine the existing employer-sponsored insurance system, push additional costs onto consumers, do little to decrease the ranks of the uninsured, and favor the healthy and wealthy.

### **Health Savings Accounts and High-Deductible Health Plans**

***Provides \$156.3 Billion to Promote Health Savings Accounts (HSAs)*** — The President's budget includes \$59.2 billion over five years and \$156.3 billion over ten years for a package of policies that promote HSAs and high-deductible health plans (HDHPs). The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created HSAs, which allow tax-free deposits into, and withdrawals from, an account for qualified medical expenses as long as the individual purchases a HDHP. In 2006, the HDHP must have a deductible of at least \$1,050 for an individual (\$2,100 for a family), and must limit out-of-pocket expenses for covered benefits to \$5,250 for an individual (\$10,500 for families). Contributions into the HSA cannot exceed the deductible or an annual limit, whichever is lower. Tax-free withdrawals from the HSA can be used for deductibles, co-payments, and uncovered medical costs.

The Administration's emphasis on HSAs and HDHPs is part of an effort to shift more of the cost of health care onto individual consumers, and to move away from comprehensive health coverage. These proposals promoting HSAs are likely to undermine the existing employer-based system of health coverage, and could actually increase the number of uninsured by giving employers an incentive to drop or reduce health coverage. Furthermore, HSAs mainly benefit the healthy and the wealthy since this type of coverage is most attractive to those who have low health care costs and are in higher tax brackets.

**Administration Spends \$156 Billion for  
High-Deductible Health Plans and Health Savings Accounts**  
(dollars in billions)

	FY07 - FY11	FY07 - FY16
Expand Health Savings Accounts*	\$30.2	\$90.7
Provide an above-the-line deduction for high-deductible health plan premiums*	\$19.0	\$41.3
Provide refundable tax credit*	\$9.9	\$24.1
Improve the Health Coverage Tax Credit	\$0.1	\$0.2
<b>Total, Health Tax Policy Proposals</b>	<b>\$59.2</b>	<b>\$156.3</b>

\*Includes outlay effects

- ***Tax-Free Contributions to HSAs*** — The budget increases the amount an individual and/or employer can put tax-free into the HSA, so that it is as high as the catastrophic cap. This is an increase from current law, which limits the HSA contributions to the lesser of a deductible or an annual limit. In addition, the budget includes a tax credit for payroll taxes paid on HSA contributions made by individuals.
- ***Tax Preferences for HDHP Premiums*** — The budget repeats a proposal from prior years to make premiums for HDHPs tax deductible for individuals who purchase them separately from an employer. In addition, the budget includes a tax credit for payroll taxes paid on earnings being used to cover HDHP premiums.
- ***Tax Credits for HSAs*** — The budget provides tax credits to low-income families to assist with the purchase of HDHPs, at a ten-year cost of \$24 billion. The tax credit is limited to \$3,000 for a family, and a portion of the credit can be deposited into the HSA.

## Other Health Policies

***Medical Malpractice*** — The President has repeatedly endorsed capping medical malpractice awards as a solution to rising health care costs, although CBO reports that such reforms will only lower health care costs by one half of one percent. The budget mentions this policy, but does not include a formal proposal nor does it include any savings.

***Association Health Plans*** — The President has promoted the idea of allowing small businesses to band together in Association Health Plans (AHPs) to buy health insurance coverage and negotiate insurance rates, while allowing them to sidestep state consumer protection laws. CBO estimates that AHPs will only increase overall health insurance enrollment by 330,000 individuals. Furthermore, AHPs can “cherry-pick” small businesses with healthier employees,

destabilizing the existing small group insurance market. The budget mentions this policy, but does not include a formal proposal nor does it include any budgetary effects.

***Sale of Insurance Across State Lines*** — The budget repeats a policy from last year allowing individuals to purchase health insurance across state lines. While such a policy is promoted under the pretense of competition, it may in fact be a way to evade state regulations that govern the insurance industry and it is unclear to what extent the proposal maintains current consumer protections. While the budget mentions this policy, it does not include a formal legislative proposal or any budgetary effects.

***Price and Quality Transparency*** — The budget asserts the Administration's commitment to working with medical providers, insurance companies, and business leaders to help consumers obtain better information on health care prices and quality. However, the budget provides no information on how it will motivate providers and the business community to publicly disclose such information. While such information will be helpful, this is another component of the Administration's agenda to push costs and health care decisions onto consumers – an educated consumer cannot replace the expertise of a medical professional in making health care decisions.